

**REPORT OF THE AUDIT OF THE
MARTIN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MARTIN COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Martin County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$3,899 from the prior year, resulting in excess fees of \$292,047 as of December 31, 2009. Revenues increased by \$4,134 from the prior year and expenditures increased by \$235.

Report Comments:

2009-01 The Sheriff's Office Lacks Segregation Of Duties
2009-02 The Sheriff Should Prepare A Complete And Accurate Quarterly Report
2009-03 The Sheriff Should Submit Reimbursement For Fee Claims Each Month

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENTS AND RECOMMENDATIONS	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Callahan, Martin County Judge/Executive
The Honorable Garmon Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Martin County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2010 on our consideration of the Martin County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kelly Callaham, Martin County Judge/Executive
The Honorable Garmon Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2009-01 The Sheriff's Office Lacks Segregation Of Duties
2009-02 The Sheriff Should Prepare A Complete And Accurate Quarterly Report
2009-03 The Sheriff Should Submit Reimbursement For Fee Claims Each Month

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Martin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

August 27, 2010

MARTIN COUNTY
 GARMON PREECE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	10,467
State Fees For Services:		
Cabinet for Health and Family Services	\$	1,908
House Bill 452	4,351	6,259
Circuit Court Clerk:		
Fines and Fees Collected		5,617
Fiscal Court		77,767
County Clerk - Delinquent Taxes		2,377
Commission On Taxes Collected		221,408
Fees Collected For Services:		
Auto Inspections	5,690	
Accident and Police Reports	1,897	
Serving Papers	13,970	
Carrying Concealed Deadly Weapon Permits	1,700	
Sheriff's 10% Add-on Fees From Taxes	16,497	
Sheriff Fees From Taxes	2,885	42,639
Other:		
Transporting Patients	1,746	
Miscellaneous	1,091	2,837
Interest Earned		625
Total Revenues		369,996

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY
 GARMON PREECE, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Operating Expenditures:

Bank Charges	\$	333
--------------	----	-----

Total Expenditures	\$	333
--------------------	----	-----

Net Revenues	369,663
--------------	---------

Less: Statutory Maximum	74,088
-------------------------	--------

Excess Fees	295,575
-------------	---------

Less: Training Incentive Benefit	3,528
----------------------------------	-------

Excess Fees Due County for 2009	292,047
---------------------------------	---------

Payments to Fiscal Court -Various Dates	291,845
---	---------

Balance Due Fiscal Court at Completion of Audit	\$	202
---	----	-----

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies

D. Fee Pooling

The Martin County Sheriff is required by the Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays all operating expenses for the fee official.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 3. Deposits

The Martin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Martin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Forfeiture Account

The Martin County Sheriff maintains a seized property account from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. The account had a beginning balance of \$3,562 on January 1, 2009, interest earned in the amount of \$18 and forfeiture funds in the amount of \$6,864, leaving a cash balance of \$10,444 as of December 31, 2009.

Note 5. Unlawful Narcotics Investigations Treatment and Education (UNITE) Asset Forfeiture Account

UNITE is a federal program established by Congress to fight drug abuse in Eastern Kentucky. The sheriff received funds from federal agencies for the Martin County Sheriff's share of assets seized as a result of a joint investigation with other local, state and federal agencies. The account had a beginning balance of \$7,084 on January 1, 2009. The account earned interest in the amount of \$30, and the sheriff expended funds totaling \$777, leaving a cash balance of \$6,337 as of December 31, 2009. These funds are used to enhance law enforcement activities and not to supplement the sheriff's normal operating budget, therefore, they are not included as a part of excess fees.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Callaham, Martin County Judge/Executive
The Honorable Garmon Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees – regulatory basis of the Martin County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated August 27, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2009-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Martin County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-02 and 2009-03.

The Martin County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Martin County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

August 27, 2010

COMMENTS AND RECOMMENDATIONS

MARTIN COUNTY
GARMON PREECE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

2009-01 The Sheriff's Office Lacks Segregation Of Duties

The Sheriff's office has a lack of proper segregation of duties due to the bookkeeper posting all items to the receipts and disbursements ledger, preparing and signing all checks, and preparing monthly bank reconciliations and financial statements. Good internal controls dictate that the same employee should not handle, record, and process financial information. The Sheriff should either segregate these duties or strengthen internal controls by routinely reviewing daily checkout sheets for accuracy, performing bank reconciliations, and ensuring that information agrees to the financial statements.

Sheriff's Response: We will work to strengthen internal controls.

STATE LAWS AND REGULATIONS:

2009-02 The Sheriff Should Prepare A Complete And Accurate Quarterly Report

Per KRS 68.210, the State Local Finance Officer, requires the Sheriff to prepare a quarterly report. The quarterly report should detail all receipts and disbursements the Sheriff collected and paid during the calendar year. The quarterly report did not include all receipts the Sheriff collected during the year. We recommend the Sheriff comply with KRS 68.210 by preparing a complete and accurate quarterly report.

Sheriff's Response: We will work on combining categories from ledger to quarterly.

2009-03 The Sheriff Should Submit Reimbursement For Fee Claims Each Month

KRS 64.092 provides reimbursement to the sheriff's office for attending court and providing security services and other law enforcement fee claims. During our review of state fee claims, we found that the sheriff has not submitted reimbursement for attending court since March 2007. Failure to submit fee claims for reimbursement reduces the sheriff's revenues, therefore, decreasing excess fees to the fiscal court. The sheriff is permitted to submit fee claims even though they are late. We recommend the sheriff begin submitting reimbursement and late fee claims to the state for allowable monthly expenditures.

Sheriff's Response: We will do this.

